

Allcargo Logistics Limited ^(Revised)

August 04, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debenture (NCD) issue (Proposed)	200.00	CARE AA; Negative (Double A/ Outlook: Negative)	Reaffirmed; rating removed from watch with developing implications, Negative outlook assigned
Non-Convertible Debenture (NCD) issue (Proposed)	200.00	CARE AA; Negative (Double A/ Outlook: Negative)	Reaffirmed; rating removed from watch with developing implications, Negative outlook assigned
Commercial Paper (CP) issue	250.00	CARE A1+ (A One Plus)	Reaffirmed
Total	650.00 (Rs. Six hundred and fifty crore only)		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has removed the long term ratings assigned to the proposed non-convertible debenture issues of Allcargo Logistics Limited (ALL) from 'Credit Watch with Developing Implications' and the ratings have been reaffirmed at 'CARE AA' with Negative outlook. The resolution of credit watch follows the completion of acquisition of majority stake of 46.8% in Gati Ltd. (Gati) by ALL for ~Rs.416 crore funded by debt of Rs.375 crore and internal accruals.

ALL is currently in process of implementation of a turnaround strategy for Gati, and expects to revive the business operations of the company by resource and network optimization, implementation of technological solutions, and focused cost rationalization. The acquisition will enable ALL to establish itself in the domestic express logistics segment; Gati has express logistics coverage in 727 out of 731 districts in India. It is present in ecommerce last mile connectivity segment and cold chain logistics. Such network will enable ALL become an end to end logistics solutions provider for its global clients. The domestic client base of Gati can further be acquired for 3PL business of the company; their import export requirements can be serviced through the Multimodal Transport Operations (MTO) segment of ALL.

While Gati's acquisition and the development of warehousing assets in Logistics Parks segment has resulted in moderation in capital structure over the past year, the company is looking to monetize its warehousing assets of Logistics Parks segment of about 5 million sq. ft. (~2 million sq. ft. currently operational, balance expected to be completed by end of FY21), and some assets of its Project & Engineering (P&E) segment during FY21 which would help in debt reduction and strengthening of credit metrics. As per the company, the proceeds of the divestment shall be utilized towards prepayment of debt by ALL. Meanwhile, the successful turnaround and integration of Gati's operations and the timely monetization of the assets by ALL remain key rating monitorables.

The ratings continue to derive strength from the established position of the company in the global less than container load (LCL) and domestic container freight station (CFS) businesses, integrated operations with diversified income profile, strong international presence, and comfortable financial risk profile. These rating strengths are partially tempered by susceptibility of ALL's operations to decline in EXIM trade volumes, intensifying competition in the CFS business, the muted capex cycle affecting the Project & Engineering solutions (P&E) business, and the susceptibility of all the business segments of ALL to global trade slowdown on account of Covid19.

Rating Sensitivities**Positive Factors**

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

- Timely completion of capex in the Logistics Park vertical and its profitable monetization, successful divesting of assets of P&E vertical, achieving turnaround in GATI operations vide cost control measures and synergies and demonstrated resilience of ALL's businesses amidst the on-going slowdown due to Covid pandemic, would be positive for the ratings.
- Achieving strengthened capital structure on account of substantial debt reduction, also supported by stable accruals from MTO and CFS segments of the company during FY21.

Negative Factors

- Any large debt funded acquisitions further affecting the debt profile of the company (overall gearing exceeding 1.00x)
- Weakening of EBITDA margins to less than 6.5% on account of revenue degrowth in CFS vertical, continued losses in P&E vertical due to underutilization of assets, and sharp slowdown in global trade.

Outlook: Negative

The negative outlook has been assigned to long term ratings on account of moderation in financial risk profile of the company due significant increase in debt for acquisition of Gati and construction of warehouses. Further, given the current slowdown in global trade outlook on account of the coronavirus pandemic, the company's accruals are expected to be impacted in the near to medium term. The outlook may be revised to stable after successful offloading of the warehousing assets as per expected timeline and early retirement of the related debt from such proceeds, and on turnaround and integration of Gati's operations and subsequent unlocking of business synergies between the two entities.

Detailed description of the key rating drivers**Key Rating Strengths****Established track record and experienced management**

ALL is headed by Mr. Shashi Kiran Shetty who has more than three decades of experience in the logistic business. He served as an ex-trustee of Mumbai Port Trust and as the Chairman of Association of Multimodal Transport Operations of India (AMTOI). The Board of the company comprises of six Directors out of which three are Non-Executive and Independent Directors.

Integrated solutions provider in the logistics space and diversified income profile

ALL operates in multiple segments: Multimodal Transport Operations (MTO), Container Freight Stations (CFS)/Inland Container Depot (ICD), Project & Engineering solutions (P&E), domestic mid mile and last mile logistics through Gati, and Logistics Parks (LPs) where it has ventured recently. Further, it also provides contract and ecommerce logistics solutions. Recent addition of Gati's strong domestic network will further improve its business risk profile. Having its presence across the logistics supply chain and with its strong network spread domestically and across various countries, ALL is now an end-to-end logistics solutions provider.

Significant growth in the MTO Segment

The MTO segment which mainly consist of Less than Container Load (LCL) aggregation along with value addition has shown significant improvement in performance backed by volume growth. The total volume in the MTO segment has grown at a CAGR of around 12% over the period FY16-FY20 due to increasing marketshare in various geographies backed by several acquisition done in the past. The contribution of MTO in the overall profitability (PBILT) has increased from around 49% in FY16 to 72% in FY20.

Strong financial risk profile marked by comfortable capital structure

ALL's gearing deteriorated from 0.37x in FY19 to 0.97x in FY20 on account of debt funded capex for foray in LPs as well as acquisition of Gati. The total debt of the group which was around Rs. 598 crore in FY19 has increased to around Rs. 1933 crore (including Gati's debt of around Rs. 330 crore). However, the planned monetization of assets of the Logistics Park and P&E segments of ALL during FY2021 may result in substantial debt reduction. The financial risk profile is expected to remain comfortable after considering the debt funded acquisition of Gati and the divestment of warehousing assets by ALL.

Consistent operating performance in FY20

In FY20, MTO segment contributed 89%, CFS 6% and P&E 4% to the total revenue for the year; the total operating income of ALL on a consolidated basis rose to Rs.7352.31 crore, registering a growth of 6% on a YoY basis over FY19; MTO was the major segment that contributed to the revenue growth. The PBILDT margin remained stable at 6.93% (6.87%) while the PAT margin fell to 3.19% (3.59%). Gati on consolidated basis has recorded revenue of Rs. 1725 crore during FY21.

ALL has been able to grow its MTO volumes at a higher rate than the global growth of ~2% in FY20 by sweating existing assets and focusing on the FCL (Full Container Load) along with LCL market.

Strong international presence

ALL's domestic services are recognized under the brand 'Allcargo' whereas internationally ALL is known through its 100% subsidiary ECU Worldwide (formerly ECU line) which has a strong presence in Europe, Latin America, Middle East and Africa. ALL is amongst the leading players in the global LCL consolidation market with a strong network across 160 plus countries and 300 plus offices covering over 4,000 port pairs across the world. Through ECU Worldwide, ALL also has presence in emerging markets like Brazil, Vietnam and Russia and most importantly China.

Key Rating Weaknesses**Slowdown in global EXIM trade and delay in infrastructure projects**

The logistics sector is exposed to economic cycles and any slowdown in EXIM trade or capex cycle due to an economic slowdown may affect ALL. Since a significant portion of P&E segment is derived from the infrastructure projects, the current subdued investment scenario may affect the asset utilization in the segment. Further, a decline in global EXIM traffic is expected to have an impact on the revenues of the MTO as well as CFS business.

Moderation in volumes due to the lockdown resulting into global economic slowdown

The global trade slowdown have impacted the container volume at ports in Q1FY21. Moderation in volume are expected during FY21 which is expected to affect players like Allcargo. However, resilience in the less than container load (LCL) volumes is expected to provide support, limiting significant moderation in operating performance in FY21.

Increasing competition in the CFS business

The CFS segment is highly competitive with several established and new players entering the segment. While Direct Port Delivery (DPD) implementation at JNPT had limited impact as of now as around 90% containers move back to CFS due to lack of storage and transportation infrastructure at the customers end; however capacity addition by established players have moderated the volumes along with realizations per TEU. Allcargo is expected to sustain its performance of its CFS division due to its integrated operations and value addition offered.

Liquidity: Strong

Liquidity is marked by adequate accruals against repayment obligations, un-utilized bank lines, cash and liquid investments. As on June 16, 2020, the company had ~Rs.425 crore of cash and liquid investment balances. The net working capital cycle of the company is comfortable at 11 days. The average working capital utilization has remained moderate at 36% in the past 12 months ended June 2020.

Analytical approach:

For arriving at the ratings, CARE has considered the consolidated financials of Allcargo Logistics Limited owing to financial and operational linkages with its subsidiaries as well as common management. As on March 31, 2020, the company had 145 subsidiaries, 6 JVs, and 3 associates. The details of companies are given in Annexure 3. CARE has also combined the financial risk profile of Gati Ltd, post-acquisition, as Allcargo is the single largest shareholder with 46.8% stake in the company and enjoys management control.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Service Sector Companies](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

About the Company

Allcargo Logistics Limited (ALL) is an integrated logistics service provider and operates in multiple business segments - Multimodal Transport Operations (MTO), Container Freight Stations (CFS)/Inland Container Depot (ICD), Project & Engineering solutions (P&E), Contract Logistics, and Logistics Parks (LPs) in which it has forayed recently. Incorporated in 1993, as a freight-forwarding agent, ALL became a multimodal transport operator in 1998 by offering logistics services, such as consolidation of Less-than-Container Load (LCL) and full-container load cargo for exporters and importers. In 2006, the company acquired ECU Worldwide, which is one of the world's largest players in LCL segment.

As at the end of March 31, 2020, ALL owns and operates five CFSs with 2 at JNPT and 1 each in Chennai, Mundra and Kolkata with a combined capacity of 386,000 TEU (Twenty Equivalent Foot Unit) per annum. The company also operates an ICD at Dadri (in a 51:49 JV with Concor) with a capacity of 75,000 TEU per annum and has warehouses at various locations.

The international operation of ALL mainly includes global MTO (LCL consolidation) business (carried out by ECU Worldwide and its subsidiaries). This segment is the largest contributor to the gross revenue for ALL. ALL is amongst the leading players in the global LCL consolidation market with a strong network across 160 plus countries and 300 plus offices covering over 4,000 port pairs across the world.

Brief Financials (Rs. crore) (Consolidated)	FY19 (A)	FY20 (A)
Total operating income	6912.95	7352.31
PBILDT	475.01	509.52
PAT	247.84	234.34
Overall gearing (times)	0.37	0.97
Interest coverage (times)	13.17	7.44

A: Audited

About Gati Limited

Established in 1989, Gati Limited (Gati) at group level is promoted by Mr Mahendra Agrawal and it is India's largest road transport company. Gati has established connectivity across air, road, ocean and rail providing various logistics services to the customers in the industry. Gati, operates a fleet of 5,000 vehicles on road and has more than 7,000 business partners across India. Gati at standalone handles e-commerce division along with freight forwarding and fuel stations segment. In the fuel stations segment the company deals in petrol and diesel business along with other motor parts and lubricants through its fuel stations. Presently Gati is operating five fuel stations at Bangalore, Belgaum, Indore, Hyderabad and Chattrra (Karnataka).

Brief Financials (Rs. crore) (Standalone)	FY19 (A)	FY20 (A)
Total operating income	537.43	445.51
PBILDT	37.30	-5.28
PAT	24.25	-57.82
Overall gearing (times)	0.15	0.08
Interest coverage (times)	2.23	NM

A: Audited; NM: Not Meaningful

Covenants of rated instrument / facility: Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures (Proposed)	Not Applicable	Not Applicable	Not Applicable	150.00	CARE AA; Negative
Debentures-Non Convertible Debentures(Proposed)	Not Applicable	Not Applicable	Not Applicable	50.00	CARE AA; Negative
Debentures-Non Convertible Debentures(Proposed)	Not Applicable	Not Applicable	Not Applicable	200.00	CARE AA; Negative
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	250.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper	ST	250.00	CARE A1+	-	1)CARE A1+ (27-Sep-19)	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (06-Dec-17)
2.	Debentures-Non Convertible Debentures (Proposed)	LT	150.00	CARE AA; Negative	-	1)CARE AA (Under Credit watch with Developing Implications) (13-Dec-19) 2)CARE AA; Stable (27-Sep-19)	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (06-Dec-17)
3.	Debentures-Non Convertible Debentures (Proposed)	LT	50.00	CARE AA; Negative	-	1)CARE AA (Under Credit watch with Developing Implications) (13-Dec-19) 2)CARE AA; Stable (27-Sep-19)	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (06-Dec-17)
4.	Debentures-Non Convertible Debentures (Proposed)	LT	200.00	CARE AA; Negative	-	1)CARE AA (Under Credit watch with Developing Implications) (13-Dec-19) 2)CARE AA;	-	-

						Stable (27-Sep-19)		
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Annexure-3: List of companies considered in consolidated financials of ALL:

Sr No	Name of subsidiary
1	Hindustan Cargo Limited
2	Contech Logistics Solutions Private Limited
3	Allcargo Multimodal Private Limited
4	Avvashya Projects Private Limited
5	Avvashya Inland Parks Private Limited
6	Panvel Logistics and Warehousing Solutions Private Limited
7	AGL Warehousing Private Limited
8	Transindia Logistic Park Private Limited
9	ECU International (Asia) Private Limited
10	Combine Indian Agencies Private Limited
11	Allcargo Inland Park Private Limited
12	South Asia Terminals Private Limited
13	Allcargo Logistics & Industrial Park Private Limited
14	Malur Logistics and Industrial Parks Private Limited
15	Kalina Warehousing Private Limited
16	Jhajjar Warehousing Private Limited
17	Bantwal Warehousing Private Limited
18	Panvel Warehousing Private Limited
19	Koprolu Warehousing Private Limited
20	Bhiwandi Multimodal Private Limited
21	Allcargo Warehousing Management Private Limited
22	Madanahatti Logistics and Industrial Parks Private Limited
23	Marasandra Logistics and Industrial Parks Private Limited
24	Venkatapura Logistics and Industrial Parks Private Limited
25	Transindia Projects and Transport Solutions Private Limited
26	Comptech Solutions Private Limited
27	Allcargo Belgium N.V.
28	Administradora House Line C.A.
29	AGL N.V.
30	Asia Line Ltd
31	CELM Logistics SA de CV
32	China Consolidated Company Ltd.
33	CLD Compania Logistica de Distribucion SA.
34	Contech Transport Services (Private) Limited
35	Consolidadora Ecu- Line C.A
36	ECI Customs Brokerage, Inc
37	Econocaribe Consolidators, Inc
38	Econoline Storage Corp
39	Ecu Global Services N.V.

Sr No	Name of subsidiary
40	Ecu International Far East Ltd.
41	Ecu International N.V.
42	Ecu Shipping Logistics (K) Ltd.
43	Ecuhold N.V.
44	Ecu-Line Algeria sarl
45	Ecu-Line Doha W.L.L.
46	Ecu-Line Paraguay SA
47	Ecu-Line Peru SA
48	Ecu-Line Spain S.L.
49	Ecu-Line Switzerland GmbH
50	Eculine Worldwide Logistics Company Limited
51	Ecu-Logistics N.V.
52	ELWA Ghana Limited
53	Eurocentre Milan srl.
54	FCL Marine Agencies B.V.
55	Flamingo Line Chile S.A.
56	Flamingo Line del Ecuador SA
57	Flamingo Line Del Peru SA
58	FMA-LINE France S.A.S.
59	Guldary S.A.
60	HCL Logistics N.V.
61	Integrity Enterprises Pty Ltd
62	Allcargo Logistics FZE
63	ECU Worldwide Tianjin Limited
64	OTI Cargo Inc
65	Prism Global Limited
66	PRISM Global, LLC
67	Rotterdam Freight Station BV
68	Société Ecu-Line Tunisie Sarl
69	Ecu Worldwide (Uganda) Limited
70	FMA-Line Holding N. V.
71	FMA-LINE Nigeria Ltd.
72	Jordan Gulf for Freight Services Agencies Co. LLC
73	Ports International, Inc.
74	Star Express Company Ltd
75	Ecu - Worldwide - (Ecuador) S.A.
76	Ecu - Worldwide (Singapore) Pte. Ltd
77	Ecu World Wide Egypt Ltd
78	Ecu Worldwide (Argentina) SA
79	Ecu Worldwide (Belgium)
80	Ecu Worldwide (Chile) S.A
81	Ecu Worldwide (Colombia) S.A.S.
82	Ecu Worldwide (Cote d'Ivoire) sarl

Sr No	Name of subsidiary
83	Ecu Worldwide (CZ) s.r.o.
84	Ecu Worldwide (El Salvador) S.P. Z.o.o S.A. de CV
85	Ecu Worldwide (Germany) GmbH
86	Ecu Worldwide (Guangzhou) Ltd.
87	Ecu Worldwide (Guatemala) S.A.
88	Ecu Worldwide (Hong Kong) Ltd.
89	Ecu Worldwide (Malaysia) SDN. BHD.
90	Ecu Worldwide (Mauritius) Ltd.
91	Ecu Worldwide (Netherlands) B.V.
92	Ecu Worldwide (Panama) SA
93	Ecu Worldwide (Philippines) Inc.
94	Ecu Worldwide (Poland) Sp zoo
95	Ecu Worldwide (South Africa) Pty Ltd
96	Ecu Worldwide (UK) Ltd
97	Ecu Worldwide (Uruguay) SA
98	Ecu Worldwide Australia Pty Ltd
99	Ecu Worldwide Canada Inc
100	Ecu Worldwide Costa Rica S.A.
101	Ecu Worldwide Italy S.r.l.
102	ECU Worldwide Lanka (Private) Ltd.
103	Ecu Worldwide Logistics do Brazil Ltda
104	Ecu Worldwide Mexico SA de CV
105	Ecu Worldwide Morocco S.A
106	Ecu Worldwide New Zealand Ltd
107	Ecu Worldwide Romania SRL
108	Ecu Worldwide Turkey Taşımacılık Limited Şirketi
109	PT Ecu Worldwide Indonesia
110	FCL Marine Agencies Belgium bvba
111	FMA Line Agencies Do Brasil Limited
112	Oconca Container Line S.A. Ltd.
113	Allcargo Hong Kong Ltd
114	FMA Line SA (PTY) LTD
115	Almacen y Maniobras LCL SA de CV
116	Ecu Worldwide Servicios SA de CV
117	Ecu Trucking Inc.
118	ECU Worldwide CEE S.r.l.
119	Ecu Worldwide (Kenya) Ltd
120	AGL Bangladesh Private Limited
121	Tradelog, INC
122	Spechem Supply Chain Management (Asia) Pte. Ltd
123	Ecu Worldwide (Bahrain) Co. W.L.L.
124	Allcargo Logistics LLC
125	Ecu-Line Middle East LLC

Sr No	Name of subsidiary
126	Eurocentre FZCO
127	Ecu-Line Abu Dhabi LLC
128	CCS Shipping Ltd.
129	China Consolidation Services Shipping Ltd
130	Allcargo Logistics China Limited
131	East Total Logistics B.V.
132	Asiapac Logistics Mexico SA de CV
133	PAK DA (HK) Logistics Ltd.
134	Ecu Worldwide China Limited
135	Ecu-Line Saudi Arabia LLC
136	Ecu-Line Zimbabwe Private Limited
137	European Customs Broker N.V.
138	Ecu Worldwide (Japan) Ltd.
139	Ecu Worldwide (Thailand) Co. Ltd.
140	Ecu Worldwide (Cyprus) Ltd.
141	Ocean House Ltd.
142	Ecu Worldwide Vietnam Company Limited
143	Centro Brasileiro de Armazenagem E Distribuicao Ltda (Bracenter)
144	General Export S.r.l.
145	Ecu Worldwide Baltics (Incorporated on 1st August 2018)
	Name of Associate company
1	FCL Marine Agencies GMHB (Hamburg)
2	FCL Marine Agencies GMHB (Bermen)
3	Allcargo Logistics Lanka (Private) Limited
	Name of Joint venture
1	Fasder S.A.
2	Ecu Worldwide Peru S.A.C.
3	Transnepal Freight Services Private Limited
4	Avvashya CCI Logistics Private Limited
5	Allcargo Logistics Park Private Limited
6	Altcargo Oil & Gas Private Limited

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	Simple
2.	Debentures-Non Convertible Debentures	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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